PENSION RIGHTS CENTER

PROTECTING AND PROMOTING RETIREMENT SECURITY
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STATEMENT OF THE PENSION RIGHTS CENTER

IN SUPPORT OF

H.B. 5313, AN ACT CREATING A TASK FORCE TO STUDY A STATE-ADMINISTERED PENSION FUND FOR EMPLOYEES IN THE STATE

BEFORE THE
LABOR AND PUBLIC EMPLOYEES COMMITTEE
OF THE
CONNECTICUT GENERAL ASSEMBLY

MARCH 8, 2012

Members of the Committee, thank you for this opportunity to testify. My name is Karen Friedman, and I am the Executive Vice President and Policy Director of the Pension Rights Center, the only consumer organization working exclusively to protect and promote the retirement rights of workers, retirees, and their families. I also am the coordinator of Retirement USA, a campaign composed of 30 national organizations that are working together for a universal, secure and adequate pension system, that in conjunction with Social Security, will provide future generations of workers with sufficient income for retirement.

I am pleased testify for two reasons: first, because I believe that Connecticut can help lead the way for creating a model for pension reform and can lead the nation in expanding retirement coverage and security for American workers. And, secondly, I was born and raised in West Hartford, and my parents and many members of my family still live here, so it's an honor to testify.

We commend you for holding this hearing on whether Connecticut should set up a task force to study the pension problems in this state and to examine whether the state retirement system could be an administrative agent for a new plan for private-sector workers. From the Pension Rights Center's perspective, the answer to these questions is a resounding "yes." At a time when the economy is in a tailspin, and middle-class American families are facing challenges as never before in recent history, we want to make sure that those who have worked hard and played by the rules are able to retire with adequate income and dignity. The state retirement system can play an important role in helping facilitate that American dream, by providing a vehicle for retirement savings for all workers.

As it is, millions of people are facing a bleak retirement. Nationally, half of all private-sector workers have no pensions or retirement savings plan to supplement Social Security – and this has been a stubborn fact for more than a quarter of a century. Too many employers who sponsor pension plans that provide lifetime, guaranteed incomes are freezing, terminating, and otherwise cutting back those plans and replacing them with less-secure 401(k) plans. Thirty years ago, one out of two private-sector workers participated in defined benefit plans, and now that figure is closer to one in five. And 401(k) plans have left most workers with insufficient assets for retirement. In 2007, half of all households had less than $45,000 in their accounts. For those approaching retirement, the median account balance was just about $98,000 – not nearly enough to last throughout retirement.

Public opinion polls reflect America's mounting anxiety. According to the National Institute on Retirement Security, 84 percent of Americans are concerned that current economic conditions are impacting their ability to achieve a secure retirement, with more than half (54 percent) of Americans very concerned. In a recent Gallup poll, the top financial concern for most Americans was not having enough money for retirement, surpassing concerns about paying for healthcare or paying the mortgage. And in a poll conducted for the Allianz life insurance company, a majority of mid-career workers said the fear of not having enough money for retirement was greater even than their fear of death.

While state and national legislators have been focusing on budget deficits, the Pension Rights Center and our partners would urge you to address another kind of deficit: the massive and growing Retirement Income Deficit facing the nation. According to the nonpartisan Center for Retirement Research at Boston College, the Retirement Income Deficit facing Americans is an astounding $6.6 trillion. That number represents the gap between what people have saved as of today and what they should have saved to achieve a level of sufficiency in retirement.

To arrive at this number, the Center on Retirement Research used a conservative methodology based on the one it uses to calculate the National Retirement Risk Index. The Center only looked at households in their peak earning years, between 32 and 64 years old, and assumed that people would continue to earn pensions, that they would contribute to 401(k)s, and that they would continue receiving Social Security benefits under today's formula. The Center also factored in the value of home equity as a source of income for retirement.

To address this Retirement Income Deficit, the Center joined with a range of other labor, retiree, consumer organizations and progressive think tanks to create Retirement USA, a campaign that is promoting the need for a new national pension system, on top of Social Security, that is secure and adequate for all workers. The organizations involved in Retirement USA include the AFL-CIO, AFSCME, Economic Policy Institute, Demos, National Women's Law Center and SEIU.

After studying systems in other countries, and proposals and programs here in the United States, Retirement USA developed 12 principles that we believe should underlie a new system and that borrow from the best parts of defined benefit plans and 401(k) plans. As a starting point, we all believe that any new private system, either nationally or in Connecticut, should build on top of an unreduced Social Security system. Social Security must be maintained and strengthened because it is doing an unparalleled job of providing a basic foundation of income for retirees. We hope state legislators weigh in on this debate as well.

As Connecticut studies the feasibility of creating a new system for private sector workers we would urge you to weigh that new system against our principles:

(1) Universal Coverage. Every worker should be covered by a retirement plan. A new retirement system that supplements Social Security should include all workers unless they already are in plans that provide equally secure and adequate benefits.

(2) Secure Retirement. Retirement shouldn't be a gamble. Workers should be able to count on a steady lifetime stream of retirement income to supplement Social Security.

(3) Adequate Income. Everyone should be able to have an adequate retirement income after a lifetime of work. The average worker should have sufficient income, together with Social Security, to maintain a reasonable standard of living in retirement.

Other principles include

- **Shared Responsibility.** Retirement should be the shared responsibility of employers, employees, and the government.
- **Required Contributions**. Employers and employees should be required to contribute a specified percentage of pay, and the government should subsidize the contributions of lower-income workers.
- **Pooled Assets.** Contributions to the system should be pooled and professionally managed to minimize costs and financial risks
- **Payouts Only at Retirement.** No withdrawals or loans should be permitted before retirement, except for permanent disability.
- **Lifetime Payouts.** Benefits should be paid out over the lifetime of retirees and any surviving spouses, domestic partners, and former spouses.
- **Portable Benefits.** Benefits should be portable when workers change jobs.
- **Voluntary Savings**. Additional voluntary contributions should be permitted, with reasonable limits for tax-favored contributions.
- **Efficient and Transparent Administration.** The system should be administered by a governmental agency or by private, non-profit institutions that are efficient, transparent, and governed by boards of trustees that include employer, employee, and retiree representatives.
- **Effective Oversight.** Oversight of the new system should be by a single government regulator dedicated solely to promoting retirement security.

These are not unreachable ideals, and there are many plans and proposals that we have looked to in developing our principles and ideas for a new system, both here and abroad. These could be models that Connecticut could study as well. Here are some ideas worthy of exploration:

- **TIAA-CREF**: TIAA, the plan set up by Andrew Carnegie for college teachers is portable – meaning people can take their pensions with them from job to job, is employer-paid, uses pooled investments, and generally pays benefits out as lifetime annuities.
- **Guaranteed Retirement Accounts**: Developed by Teresa Ghilarducci and the Economic Policy Institute, the GRA proposal mandates a 5 percent of earnings contribution split between workers and employers, with the employee's share reduced by a refundable tax

credit to cover the cost of the contribution for lower-income workers. The plan would guarantee a minimum 3 percent annual return adjusted for inflation, and the amount would be paid out as an annuity. In California, Congressman Kevin De Leon has introduced a bill based on the GRA.

- **The Secure Choice Pension**, developed by the National Conference on Public Employee Retirement Systems (NCPERS) has created a new multiple-employer hybrid plan – one that combines features of defined benefit plans and 401(k) plans -- designed specifically for adoption by states. The plan is run by a board of trustees and would promise a bottom-line guaranteed benefit.

The Pension Rights Center also has developed a plan design that would share risks somewhat like collective defined contribution plans do in the Netherlands.

Many of these types of ideas are gaining traction on a national level –among labor unions, businesses, financial institutions and think tanks across the political spectrum.

Two weeks ago, the Pension Rights Center and the Urban Institute, sponsored an event with Covington & Burling, a law firm representing some of the largest corporations in the country, to "reimagine pensions" for the country and explore pension plans designs that share risks between employers and employees. Everyone is beginning to recognize that the current system just isn't working for employees and we need something new. There is also interest in the key congressional tax-writing and labor committees in new approaches.

At the "Re-imagining Pensions" event, there was considerable interest in exploring ideas on how state retirement systems can administer new approaches for private-sector workers. In fact, some experts suggested that perhaps there could be enabling legislation to explore setting up one or more plans as laboratories for change. This is in the beginning stages of dialogue but a topic worth investigating further in the future.

My father, Ed Friedman, owned the Friedman Floor Covering business on New Britain Avenue (formerly on Prospect Avenue) for more than 60 years (His father Sam started the first carpet store in Connecticut). He retired at age 82 and is now 88 years old. My dad was a small-business owner who tried to do right by his employees. When I asked him about whether Connecticut should explore setting up a new pension plan that would ease administrative burdens of small businesses, and help expand secure coverage for employees, my dad said "What a great idea. If they had done it before, I would have participated."

Being a good daughter, I know my father is always right. And this is no exception. Setting up a task force to study retirement issues will be good for businesses and employees of the state – and also position Connecticut to lead the nation in reform.

Thank you for giving me this opportunity to testify.